

CITY OF MILFORD
INDEPENDENT AUDITORS' REPORTS
PRIMARY GOVERNMENT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
JUNE 30, 2006

TABLE OF CONTENTS

	<u>Page</u>
Officials	1
Independent Auditors' Report	2 - 3
Basic Financial Statements:	
	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets - Cash Basis	A 4 - 5
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances	B 6 - 7
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances	C 8
Fiduciary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements, and Changes in Cash Balance	D 9
Notes to Financial Statements	10 - 15
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	16 - 17
Notes to Required Supplementary Information - Budgetary Reporting	18
Other Supplementary Information:	
	<u>Schedule</u>
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances - Nonmajor Governmental Funds	1 19
Schedule of Indebtedness	2 20 - 21
Bond and Note Maturities.....	3 22
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	4 23
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	24 - 25
Schedule of Findings	26 - 28

CITY OF MILFORD
OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
(Before January 2006)		
Virgil Wahlman	Mayor	January 1, 2006
Terresa Netsch	Mayor Pro-Tem	January 1, 2006
Michael Anderson	Council Member	January 1, 2008
Howard Kyle	Council Member	January 1, 2006
Detlef Ball	Council Member	January 1, 2008
Rick Kilts	Council Member	January 1, 2008
Bryan Read	City Administrator/Treasurer	Indefinite
David Stein, Sr.	Attorney	Indefinite
(After January 1, 2006)		
Virgil Wahlman	Mayor	January 1, 2008
Donald Lamb	Mayor Pro-Tem	January 1, 2010
Michael Anderson	Council Member	January 1, 2008
Keith Feller	Council Member	January 1, 2010
Don Gude	Council Member	January 1, 2008
Rick Kilts	Council Member	January 1, 2008
Bryan Read	City Administrator/Treasurer	Indefinite
David Stein, Sr.	Attorney	Indefinite

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Milford
Milford, IA 51351

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the primary government of the City of Milford, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of City of Milford's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements referred to above include only the primary government of the City of Milford, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position - cash basis of the reporting entity of the City of Milford as of June 30, 2006, and the changes in its financial position - cash basis for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Milford at June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2006 on our consideration of The City of Milford's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 16 through 18 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

The City has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insight on that information that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City's primary government. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements of the City's primary government for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kintner, Stare + Co., LLP

August 18, 2006

BASIC FINANCIAL STATEMENTS

CITY OF MILFORD
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

		Program Receipts		
		Charges for	Operating	Capital
	<u>Disbursements</u>	<u>Service</u>	<u>Grants and</u> <u>Contributions</u>	<u>Grants and</u> <u>Contributions</u>
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety	\$ 354,577	\$ 37,669	\$ 53,500	
Public works	407,159	3,956	206,925	
Health and social services	2,100			
Culture and recreation	286,487	2,373	27,309	
Community and economic development	71,418	51,154		
General government	317,285			
Debt service	159,643			
Capital projects	45,126			
Total governmental activities	<u>1,643,795</u>	<u>95,152</u>	<u>287,734</u>	
Business-type activities:				
Sewer	93,143	86,989		
Solid waste	<u>230,628</u>	<u>217,708</u>		
Total business-type activities	<u>323,771</u>	<u>304,697</u>		
TOTAL	<u>\$1,967,566</u>	<u>\$399,849</u>	<u>\$287,734</u>	

General Receipts:

Property taxes levied for:

General purposes	
Tax increment financing	
Debt service	
Local option sales tax	
Grants and contributions not restricted to specific purpose	
Unrestricted investment earnings .	
Miscellaneous	

Total general receipts

Change in cash basis net assets

Cash basis net assets - beginning of year

Cash basis net assets - end of year

Cash basis net assets

Restricted:

TIF supported projects	
Debt service	
Streets	
Other purposes	
Unrestricted	

Total cash basis net assets

See Notes to Financial Statements

Exhibit A

Net (Disbursement) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (263,408)		\$ (263,408)
(196,278)		(196,278)
(2,100)		(2,100)
(256,805)		(256,805)
(20,264)		(20,264)
(317,285)		(317,285)
(159,643)		(159,643)
(45,126)		(45,126)
<u>(1,260,909)</u>		<u>(1,260,909)</u>
	\$ (6,154)	(6,154)
	<u>(12,920)</u>	<u>(12,920)</u>
	<u>(19,074)</u>	<u>(19,074)</u>
<u>(1,260,909)</u>	<u>(19,074)</u>	<u>(1,279,983)</u>
694,842		694,842
587,556		587,556
48,070		48,070
375,046		375,046
71,851	4,361	76,212
<u>126,169</u>	<u>2,420</u>	<u>128,589</u>
<u>1,903,534</u>	<u>6,781</u>	<u>1,910,315</u>
642,625	(12,293)	630,332
<u>1,596,320</u>	<u>118,160</u>	<u>1,714,480</u>
<u>\$2,238,945</u>	<u>\$105,867</u>	<u>\$2,344,812</u>
\$1,127,408		\$1,127,408
56,726		56,726
145,475		145,475
53,820		53,820
<u>855,516</u>	<u>\$105,867</u>	<u>961,383</u>
<u>\$2,238,945</u>	<u>\$105,867</u>	<u>\$2,344,812</u>

See Notes to Financial Statements

CITY OF MILFORD
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

		Special Revenue	
	General	TIF Supported Projects	Debt Service
RECEIPTS:			
Property tax	\$ 572,155		\$ 48,070
Tax increment financing collections		\$ 587,556	
Other city tax	274,865		
Licenses and permits	54,283		
Use of money and property	41,563	31,764	2,780
Intergovernmental	83,878		
Charges for service	75,373		
Miscellaneous	80,549		
TOTAL RECEIPTS	<u>1,182,666</u>	<u>619,320</u>	<u>50,850</u>
DISBURSEMENTS:			
Operating:			
Public safety	354,577		
Public works	104,244		
Health and social services	2,100		
Culture and recreation	286,487		
Community and economic development	71,418		
General government	317,285		
Debt service			159,643
Capital projects		45,126	
TOTAL DISBURSEMENTS	<u>1,136,111</u>	<u>45,126</u>	<u>159,643</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>46,555</u>	<u>574,194</u>	<u>(108,793)</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	125,392		102,100
Operating transfers out		(102,100)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>125,392</u>	<u>(102,100)</u>	<u>102,100</u>
NET CHANGE IN CASH BALANCES	171,947	472,094	(6,693)
CASH BALANCES - BEGINNING OF YEAR	<u>683,569</u>	<u>655,314</u>	<u>63,419</u>
CASH BALANCES - END OF YEAR	<u>\$ 855,516</u>	<u>\$1,127,408</u>	<u>\$ 56,726</u>
CASH BASIS FUND BALANCES:			
Reserved:			
Debt service			\$ 56,726
Unreserved:			
General fund	\$ 855,516		
Special revenue funds		\$1,127,408	
TOTAL CASH BASIS FUND BALANCES	<u>\$ 855,516</u>	<u>\$1,127,408</u>	<u>\$ 56,726</u>

See Notes to Financial Statements

Exhibit B

<u>Special Revenue</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds (Memorandum Only)</u>
<u>Road Use</u>		
	\$122,687	\$ 742,912
		587,556
	100,181	375,046
		54,283
	3,791	79,898
\$206,925		290,803
		75,373
		80,549
<u>206,925</u>	<u>226,659</u>	<u>2,286,420</u>
		354,577
229,873	73,042	407,159
		2,100
		286,487
		71,418
		317,285
		159,643
		45,126
<u>229,873</u>	<u>73,042</u>	<u>1,643,795</u>
<u>(22,948)</u>	<u>153,617</u>	<u>642,625</u>
		227,492
	<u>(125,392)</u>	<u>(227,492)</u>
	<u>(125,392)</u>	
(22,948)	28,225	642,625
<u>168,423</u>	<u>25,595</u>	<u>1,596,320</u>
<u>\$145,475</u>	<u>\$ 53,820</u>	<u>\$2,238,945</u>
		\$ 56,726
		855,516
<u>\$145,475</u>	<u>\$ 53,820</u>	<u>1,326,703</u>
<u>\$145,475</u>	<u>\$ 53,820</u>	<u>\$2,238,945</u>

See Notes to Financial Statements

CITY OF MILFORD
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	<u>Solid Waste</u>	<u>Nonmajor Proprietary Fund Sewer</u>	<u>Total</u>
OPERATING RECEIPTS:			
Charges for service	\$217,708	\$86,989	\$304,697
Use of money and property	3,815	546	4,361
Miscellaneous	<u>2,420</u>	<u>2,420</u>	<u>2,420</u>
TOTAL RECEIPTS	<u>223,943</u>	<u>87,535</u>	<u>311,478</u>
OPERATING DISBURSEMENTS:			
Business type activities	<u>230,628</u>	<u>93,143</u>	<u>323,771</u>
TOTAL OPERATING DISBURSEMENTS	<u>230,628</u>	<u>93,143</u>	<u>323,771</u>
DEFICIENCY OF OPERATING RECEIPTS UNDER OPERATING DISBURSEMENTS	(6,685)	(5,608)	(12,293)
CASH BALANCES - BEGINNING OF YEAR	<u>101,078</u>	<u>17,082</u>	<u>118,160</u>
CASH BALANCES - END OF YEAR	<u>\$ 94,393</u>	<u>\$11,474</u>	<u>\$105,867</u>
CASH BASIS FUND BALANCES:			
Unreserved	<u>\$ 94,393</u>	<u>\$11,474</u>	<u>\$105,867</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ 94,393</u>	<u>\$11,474</u>	<u>\$105,867</u>

CITY OF MILFORD
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
 CHANGES IN CASH BALANCE
 FIDUCIARY FUND
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	Agency Fund
RECEIPTS:	
Additions	\$1,635
Interest	<u>19</u>
TOTAL RECEIPTS	<u>1,654</u>
DISBURSEMENTS:	
Deductions	<u>2,403</u>
DEFICIENCY OF RECEIPTS UNDER DISBURSEMENTS	(749)
CASH BALANCE - BEGINNING OF YEAR	<u>3,396</u>
CASH BALANCE - END OF YEAR	<u>\$2,647</u>

NOTES TO FINANCIAL STATEMENTS

CITY OF MILFORD
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Milford, Iowa is a political subdivision of the State of Iowa located in Dickinson County. The City operates under the Mayor-Council form of government with the Mayor and City Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides solid waste and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions, and authorities. These financial statements present the primary government of the City of Milford but do not include any component units for which it is financially accountable.

The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

Milford Municipal Utilities is considered a component unit of the City of Milford. The financial statements of this component unit are audited by other auditors and are presented on the accrual basis of accounting. Complete financial statements of Milford Municipal Utilities can be obtained from their administrative offices. Therefore, the City has elected not to include Milford Municipal Utilities or any other potential component units in these financial statements.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards: Dickinson County Assessor's Conference Board, Upper Des Moines Opportunity Board, Dickinson County Emergency Management Commission, and Dickinson County Joint E911 Service Board.

B. Basis of Presentation

Government-Wide Financial Statements - The statement of activities and net assets reports information on all of the nonfiduciary activities of the primary government of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities and net assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets results when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The statement of activities and net assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds, proprietary funds and a fiduciary fund. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds. The only nonmajor proprietary fund is included in a separate column in the fund financial statements.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The TIF Supported Projects Fund is used to account for projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation debt.

The Road Use Fund is used to account for road construction and maintenance.

Additionally, the City reports the following major proprietary fund:

The Solid Waste Fund accounts for the operation and maintenance of the City's solid waste utility.

C. Measurement Focus and Basis of Accounting

The City of Milford maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable or accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public works, community and economic development, and general government functions.

2. CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; and perfected repurchase agreements.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 month of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

3. BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for a general obligation note and an urban renewal tax increment financial revenue bond are as follows:

Year Ending June 30,	General <u>Obligation Note</u>		Urban Renewal Tax Increment Financing <u>Revenue Bond</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$30,000	\$1,500	\$ 90,000	\$13,063	\$120,000	\$14,563
2008			90,000	8,787	90,000	8,787
2009			95,000	4,512	95,000	4,512
Total	<u>\$30,000</u>	<u>\$1,500</u>	<u>\$275,000</u>	<u>\$26,362</u>	<u>\$305,000</u>	<u>\$27,862</u>

The City of Milford reserves the right to prepay the principal of the General Obligation Street Improvement Note issued March 12, 1997. The City may prepay the principal of this note in whole or in part at any time prior to and in inverse order of maturity on terms of par and accrued interest. All principal so prepaid shall cease to bear interest on the prepayment date.

The urban renewal tax increment financing revenue bond was issued for the purpose of defraying a portion of the costs of carrying out urban renewal projects of the City. The bond is payable solely from tax increment financing collections in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bond shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bond is not a general obligation of the City, however the debt is subject to the constitutional debt limitation of the City.

The City reserves the right to call and prepay any principal amount of the Urban Renewal Tax Increment Financing Revenue Bond issued January 8, 1999 at any time. In the event of prepayment on a date other than an interest payment date, interest shall be paid to the date of prepayment only.

4. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$39,381, \$37,662, and \$38,811, respectively, equal to the required contributions for each year.

5. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation, sick leave, and compensatory time for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, sick leave, and compensatory time payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$32,100
Sick leave	21,700
Compensatory time	<u>7,900</u>
Total	<u>\$61,700</u>

The liability for compensated absences has been computed based on rates of pay as of June 30, 2006.

6. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>		<u>Transfer from</u>	<u>Amount</u>
General	\$125,392	Special Revenue: Employee Benefits	\$122,687
		Special Revenue: Capital Projects	2,705
Debt Service	<u>102,100</u>	Special Revenue: TIF Supported Projects	<u>102,100</u>
Total	<u>\$227,492</u>		<u>\$227,492</u>

7. RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials and employees, totaling \$2,522 during the year ended June 30, 2006.

8. LOCAL GOVERNMENT RISK POOL

The City of Milford is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 531 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses, and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City of Milford's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City of Milford's annual contributions to the Pool for the year ended June 30, 2006 were \$45,563.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of the membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its capital contributions; however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City of Milford also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

9. LITIGATION

The City is party to routine legal proceedings and litigation arising in the normal course of governmental operations. These legal proceedings are not expected to have a material adverse impact on the City's financial condition.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MILFORD
BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental Fund Types <u>Actual</u>	Proprietary Fund Type <u>Actual</u>	<u>Total</u>
RECEIPTS:			
Property tax	\$ 742,912		\$ 742,912
Tax increment financing collections	587,556		587,556
Other city tax	375,046		375,046
Licenses and permits	54,283		54,283
Use of money and property	79,898	\$ 4,361	84,259
Intergovernmental	290,803		290,803
Charges for service	75,373	304,697	380,070
Miscellaneous	<u>80,549</u>	<u>2,420</u>	<u>82,969</u>
TOTAL RECEIPTS	<u>2,286,420</u>	<u>311,478</u>	<u>2,597,898</u>
DISBURSEMENTS:			
Public safety	354,577		354,577
Public works	407,159		407,159
Health and social services	2,100		2,100
Culture and recreation	286,487		286,487
Community and economic development	71,418		71,418
General government	317,285		317,285
Debt service	159,643		159,643
Capital projects	45,126		45,126
Business-type activities		<u>323,771</u>	<u>323,771</u>
TOTAL DISBURSEMENTS	<u>1,643,795</u>	<u>323,771</u>	<u>1,967,566</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	642,625	(12,293)	630,332
BALANCES - BEGINNING OF YEAR	<u>1,596,320</u>	<u>118,160</u>	<u>1,714,480</u>
BALANCES - END OF YEAR	<u>\$2,238,945</u>	<u>\$105,867</u>	<u>\$2,344,812</u>

Budgeted Amounts	Budget to Actual Variance Positive (Negative)
\$ 688,017	\$ 54,895
392,641	194,915
346,762	28,284
21,200	33,083
13,300	70,959
317,161	(26,358)
301,100	78,970
45,000	37,969
<u>2,125,181</u>	<u>472,717</u>
444,125	89,548
397,125	(10,034)
5,100	3,000
340,520	54,033
44,350	(27,068)
274,700	(42,585)
161,200	1,557
300,000	254,874
331,103	7,332
<u>2,298,223</u>	<u>330,657</u>
(173,042)	<u>\$803,374</u>
<u>1,117,380</u>	
<u>\$ 944,338</u>	

CITY OF MILFORD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
JUNE 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except fiduciary funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type activities and non-program. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds and proprietary funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public works, community and economic development, and general government functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF MILFORD
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN
 CASH BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 AS OF AND FOR YEAR ENDED JUNE 30, 2006

	<u>Special Revenue</u>		<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Local Option Sales Tax</u>	<u>Employee Benefits</u>	<u>Miscellaneous</u>	
RECEIPTS:				
Property tax		\$122,687		\$122,687
Other city tax	\$100,181			100,181
Use of money and property	3,791			3,791
TOTAL RECEIPTS	<u>103,972</u>	<u>122,687</u>		<u>226,659</u>
DISBURSEMENTS:				
Operating:				
Public works	73,042			73,042
TOTAL DISBURSEMENTS	<u>73,042</u>			<u>73,042</u>
EXCESS OF RECEIPTS OVER DISBURSEMENTS	<u>30,930</u>	<u>122,687</u>		<u>153,617</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers out		(122,687)	\$ (2,705)	(125,392)
TOTAL OTHER FINANCING SOURCES (USES)		<u>(122,687)</u>	<u>(2,705)</u>	<u>(125,392)</u>
NET CHANGE IN CASH BALANCES	30,930		(2,705)	28,225
CASH BALANCES - BEGINNING OF YEAR	<u>22,093</u>	<u>797</u>	<u>2,705</u>	<u>25,595</u>
CASH BALANCES - END OF YEAR	<u>\$ 53,023</u>	<u>\$ 797</u>	<u>\$</u>	<u>\$ 53,820</u>
CASH BASIS FUND BALANCES:				
Unreserved:				
Special revenue funds	\$ 53,023	\$ 797	\$	\$ 53,820
TOTAL CASH BASIS FUND BALANCES	<u>\$ 53,023</u>	<u>\$ 797</u>	<u>\$</u>	<u>\$ 53,820</u>

CITY OF MILFORD
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2006

<u>Obligation</u>	<u>Date of Issue</u>	<u>Amount Interest Rates</u>	<u>Originally Issued</u>
General Obligation Note: Street improvement	March 12, 1997	5.00%	\$230,000
Urban Renewal Tax Increment Financing (TIF) Revenue Bond: 1999 Issue	January 8, 1999	4.75%	\$775,000

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
<u>\$ 60,000</u>	<u> </u>	<u>\$(30,000)</u>	<u>\$ 30,000</u>	<u>\$ 3,000</u>	<u> </u>
<u>\$360,000</u>	<u> </u>	<u>\$(85,000)</u>	<u>\$275,000</u>	<u>\$17,000</u>	<u> </u>

CITY OF MILFORD
BOND AND NOTE MATURITIES
JUNE 30, 2006

General Obligation Note

<u>Street Improvement</u> <u>Issued March 12, 1997</u>		
<u>Year Ending</u> <u>June 30,</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>
2007	5.00	<u>\$30,000</u>

URBAN RENEWAL TAX
INCREMENT FINANCING (TIF)
REVENUE BOND

<u>Issued January 8, 1999</u>		
<u>Year Ending</u> <u>June 30,</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>
2007	4.75	\$ 90,000
2008	4.75	90,000
2009	4.75	<u>95,000</u>
Total		<u>\$275,000</u>

CITY OF MILFORD
 SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
 ALL GOVERNMENTAL FUNDS
 FOR THE LAST FOUR YEARS

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
RECEIPTS:				
Property and other city tax	\$1,117,958	\$1,060,377	\$1,025,048	\$1,004,889
Tax increment financing collections	587,556	513,594	467,036	590,144
Licenses and permits	54,283	23,379	40,417	29,082
Use of money and property	79,898	34,081	20,278	27,523
Intergovernmental	290,803	308,921	309,545	315,028
Charges for service	75,373	16,355	74,897	37,246
Miscellaneous	<u>80,549</u>	<u>191,023</u>	<u>36,479</u>	<u>56,459</u>
 TOTAL REVENUES	 <u>\$2,286,420</u>	 <u>\$2,147,730</u>	 <u>\$1,973,700</u>	 <u>\$2,060,371</u>
 DISBURSEMENTS:				
Public safety	\$ 354,577	\$ 439,934	\$ 570,181	
Public works	407,159	327,265	373,108	
Health and social services	2,100	3,511	1,000	
Culture and recreation	286,487	233,151	247,327	
Community and economic development .	71,418	62,476	75,296	
General government	317,285	271,992	289,622	
Debt service	159,643	271,401	217,665	
Capital projects	<u>45,126</u>	<u>122,584</u>	<u>117,238</u>	
 TOTAL EXPENDITURES	 <u>\$1,643,795</u>	 <u>\$1,732,314</u>	 <u>\$1,891,437</u>	 *

* Information not available

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INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and
Members of the City Council
City of Milford
Milford, IA 51351

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the primary government of the City of Milford, Iowa as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents and have issued our report thereon dated August 18, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Milford's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Milford's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial

reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the primary government of the City of Milford are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the primary government of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Milford, and other parties to whom the City of Milford may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Milford during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Winthrup, Stone & Co., LLP

August 18, 2006

CITY OF MILFORD
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Financial Statements

Instances of Noncompliance:

No matters were noted.

Reportable Conditions:

- I-A-06 Segregation of Duties - One important aspect of internal control over financial reporting is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted employees were performing incompatible functions.

Recommendation - We realize that it is difficult to appropriately segregate duties when the number of employees is limited. Therefore, we recommend the Council maintain their diligence in the review of the financial records.

Response - We will continue our review.

Conclusion - Response accepted.

- I-B-06 Financial Institution Accounts Not Reflected in City Financial Records - During our audit, we noted one financial institution account from which expenditures are made without approval by the City Council. Also the City did not receive the bank statements or any other type of financial reporting for this account and did not include the activity or balances of the account in its monthly financial reports. The balance and activity in the account are reflected as an agency fund on page 9.

Recommendation - We recommend the City Council approve all expenditures from this account. Statements for the account should be delivered to City offices and activity and balances in the account should be reflected in City financial records.

Response - The balance in the account is expected to be used during fiscal 2007 or transferred to other City accounts.

Conclusion - Response accepted.

CITY OF MILFORD
SCHEDULE OF FINDINGS - Continued
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Required Statutory Reporting

- II-A-06 Certified Budget - Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the public works, community and economic development, and general government functions.

Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- II-B-06 Questionable Disbursements - We noted no expenditures for parties, banquets, or other entertainment for employees that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-06 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-06 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Virgil Wahlman, Mayor, Owner of Marvil, Inc.	Developer agreement payment	\$2,522

This transaction appears to represent a conflict of interest as defined by Chapter 362.5 of the Code of Iowa.

Recommendation - We recommend the City contact legal counsel to determine the procedures which should be followed in order for this developer rebate agreement to comply with the conflict of interest requirements of Chapter 362.5 and Chapter 403.16 of the Code of Iowa.

Response - We will contact legal counsel for a recommendation of the procedures which should be followed in order to be in compliance.

Conclusion - Response accepted.

CITY OF MILFORD
SCHEDULE OF FINDINGS - Continued
FOR THE YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Required Statutory Reporting - Continued

II-E-06 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

II-F-06 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-06 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

II-H-06 Tax Increment Debt Certificate - Pursuant to the requirement contained in paragraph 5 of Section 403.19 of the Code of Iowa, the City annually submits a Tax Increment Debt Certificate which lists the Tax Increment Financing (TIF) debt of the City. We noted the annual certification does not reduce the TIF debt payable by the amount of TIF fund balances maintained by the City.

Recommendation - We recommend the City contact legal counsel to determine the proper procedures for completing the annual certification.

Response - We will consult legal counsel for a recommendation of the procedures which should be followed in order to be in compliance.

Conclusion - Response accepted.